Budget Briefs

SENATE REPUBLICAN FISCAL OFFICE

Unemployment Insurance

California Senate Republican Caucus

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What is Unemployment Insurance?

Unemployment Insurance (UI) is a nationwide program created to provide partial wage replacement to unemployed workers while they conduct an active search for new work. Employers finance the UI program through taxes on employee payroll.

Without a federal loan, the Unemployment Insurance Fund is projected to run out of funding for unemployment insurance benefits in the next few months. Without the two major expansions of UI benefit payments authorized by SB 40 in 2001 and SB 3X2 in 2002 (both authored by Senator Alarcon), our estimate suggests (1) the UI Fund would have remained solvent, (2) the average UI tax for employers would be 36 percent less in 2004, and (3) benefit payments in 2004 would be $2.2 billion or 47 percent less than the current estimate for 2004.

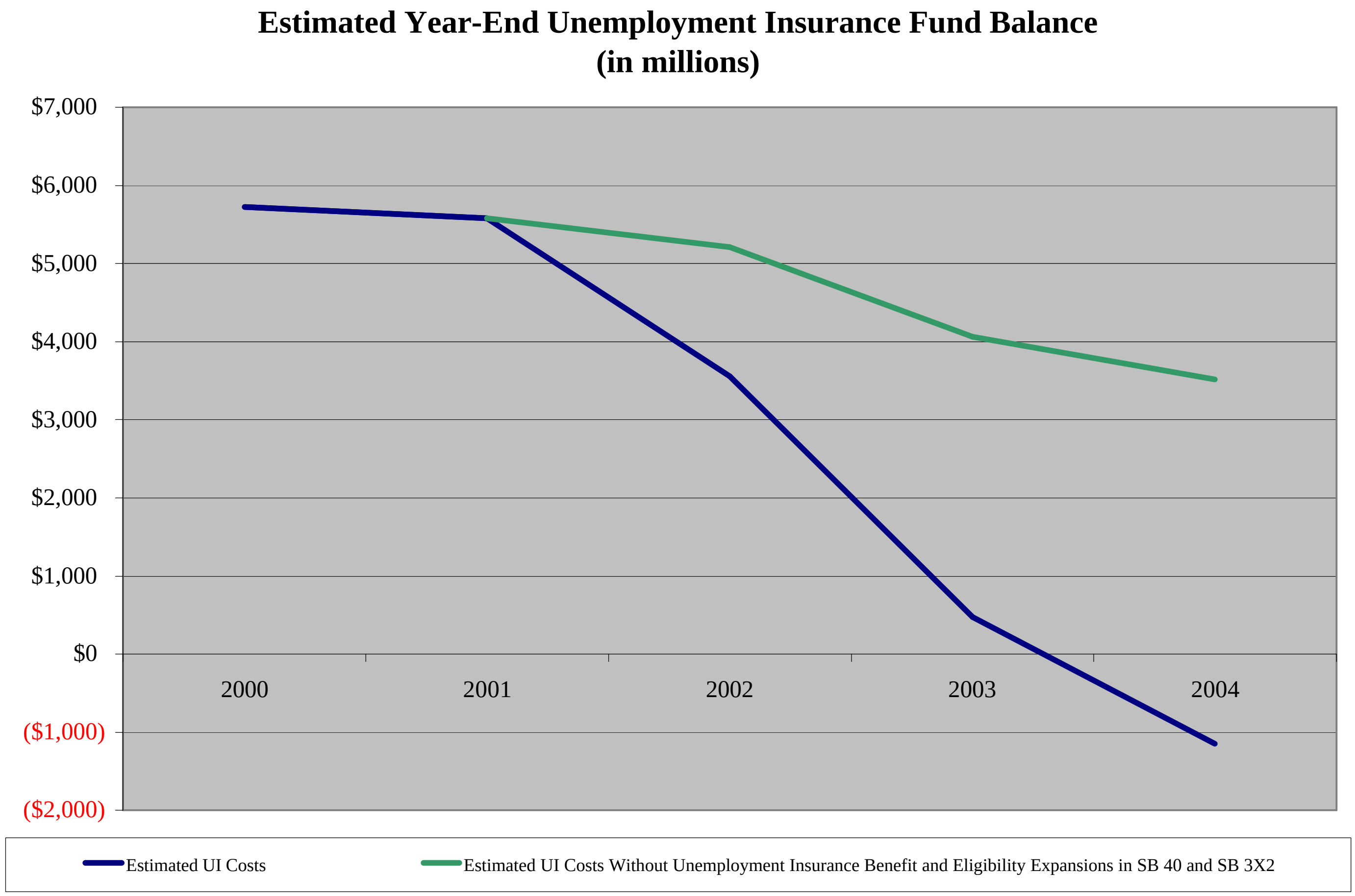
What did SB 40 and SB 3X2 do?

SB 40 increased the maximum UI benefit annually on an incremental basis, starting in 2002 and ending in 2005. The maximum weekly benefit increased from $230 in 2001 to $330 in 2002, $370 in 2003, and $410 in 2004. The benefit will increase to $450 a week in 2005. In addition, SB 40 also allowed individuals only available for part-time work to collect benefits for the first time. **SB3X2** made the increases associated with SB 40 retroactive to September 11, 2001.

<u>Chart Notes</u>

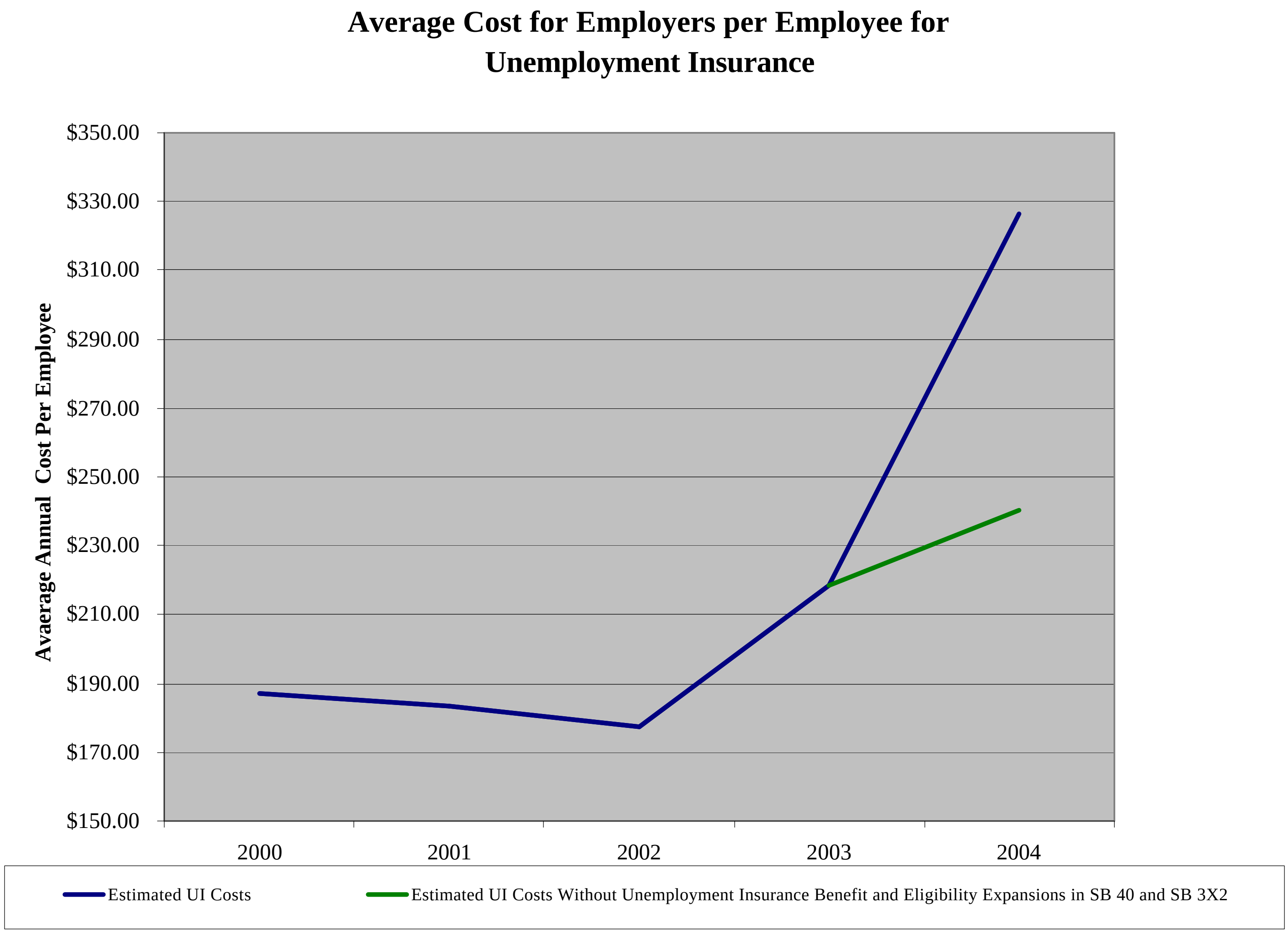
In each of the following charts, the blue line represents either past actual data or the latest estimate (October 2003) from the Employment Development Department based on current trends. The green line represents an estimate of what would have happened had SB 40 and SB 3X2 not become law.

Chart 1



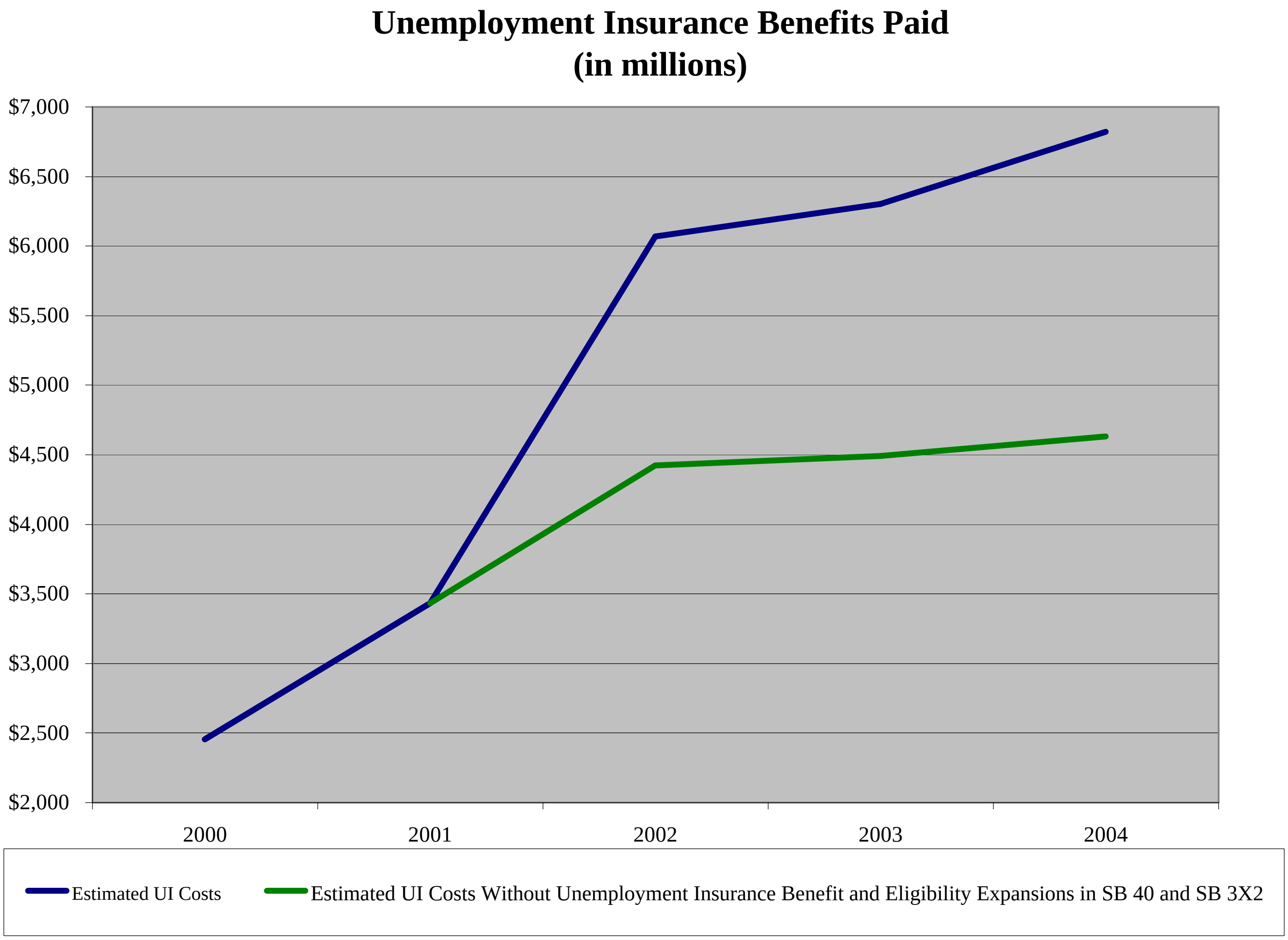
- The UI Fund is expected to go into deficit this year. The fund balance will decrease from a high of $5.7 billion in 2000 to a projected deficit of $1.1 billion by the end of 2004.
    - The EDD indicates that the fund will run out of cash in the next two months (February or March), and in response to this, the department has already received authorization for loans from the federal government.
- Even without the UI expansions, there would be a decline in the UI fund due to the economic recession and a higher unemployment rate (as represented by the green line). However, without the expansion in benefits, the UI Fund would have remained solvent, with an end of the year balance in 2004 of $3.5 billion.

Chart 2



- Chart 2 shows the average UI taxes paid by employers on an annual basis per employee.
- In 2003, we see the first major increase from $177 per employee annually in 2002 to $218 per employee in 2003. There is an even more dramatic increase in 2004 to $326 per employee. Overall, these tax hikes amount to an 84-percent increase in two years.
- Without the UI expansions, the average UI tax rate would be $240 per employee in 2004, an increase of 36 percent since 2002.

Chart 3



- Chart 3 shows benefits paid to the unemployed over time.
- Current estimates show that benefits are projected to increase by 178 percent from $2.5 billion in 2000 to $6.8 billion in 2004.
- Of this $4.4 billion increase, approximately 50 percent is due to the effects of the UI expansion bills. In other words, without the Alarcon bills, total UI benefits paid in 2004 would be $2.2 billion lower than currently projected.

Conclusion:

Although the economy is recovering, it is unlikely that the UI Fund will be solvent in the near future without structural reform to the system. The recession accelerated UI benefit payments, starting in 2001. By 2004, SB 40 and SB 3X2 doubled the impact of the recession on the UI Fund, through an increase of $2.2 billion in benefit payments directly related to the changes associated with those bills. This sharp increase in payments caused the UI Fund insolvency, and a $149 average increase in taxes for employers per employee in the last two years.

For more information, please contact Eric Swanson, Fiscal Consultant, at (916) 323-9221, or refer to our website at http://republican.sen.ca.gov/pubs.asp.